

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-07  
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01  
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04  
OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01  
/115 W

-----126963 291603Z /43

R 291450Z JUN 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4558

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 2939

USEEC, USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY,

VIENNA FOR ELLIS, PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JUN 19-25

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC  
SLIPPED SLIGHTLY IN QUIET MARKET. GOLD PRICE  
ROSE TO 140. DEALERS BELIEVE CAPITAL MARKET CONDITIONS  
ARE IMPROVING. NOTES BEARING FLOATING INTEREST  
RATES WERE PLACED ON SWISS MARKET FOR FIRST TIME.  
SOCIALISTS ARE OPPOSED TO INCREASE OF  
TURNOVER TAX AFTER REJECTION OF VALUE ADDED TAX.  
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FEDERAL COUNCIL REPORTED TO PARLIAMENT ON BANK  
CONTROL. CREDIT SUISSE EXPLAINED CHIASSO AFFAIR  
TO SHAREHOLDERS. LIECHTENSTEIN BANKS HAVE TIGHTENED UP  
RULES ON DEPOSITS. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKETS WERE CALM  
WITH MINOR RATE FLUCTUATIONS. DEALERS SAID

DOLLAR RATE AGAINST SWISS FRANC ROSE TO SF 2.50  
 TUESDAY DUE TO SWISS NATIONAL BANK DOLLAR PURCHASES  
 AND REPORTS OF IMPROVED US ECONOMIC PERFORMANCE.  
 DOLLAR RATE SLIPPED AFTER REPORT OF EXPECTED US  
 TRADE DEFICIT, THOUGH MONTH-END DEMAND FO FRANCS  
 MAY HAVE BEEN ADDED FACTOR. GOLD PRICE ROSE SLIGHTLY  
 WITH PRICE FLUCTUATING AROUND 140. DEALERS SEE  
 NO FIRM UPWARD PRICE TREND DEVELOPING. DEMAND WAS  
 CHIEFLY FROM INDUSTRY AND MIDDLE EAST AGAINST  
 NORMAL OFFER FROM PRODUCERS. NEXT IMF GOLD SALE IS  
 EXPECTED TO BE ABSORBED WITHOUT DIFFICULTY. RATES FOLLOW:

	6/20 (OPEN)	6/24 (CLOSE)
SPOT DOLLAR	2.4950	2.4915
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	1.92	1.78
TWO MONTHS	1.78	1.88
THREE MONTHS	1.86	2.02
SIX MONTHS	2.08	2.22
12 MONTHS	2.27	2.38
SF/DM	105.65	105.80
GOLD	139.25	140.5

3. CAPITAL AND MONEY MARKETS: MARKETS WERE  
 RELATIVELY CALM WITH LITTLE END-OF-QTR NERVOUSNESS.  
 SNB PROVIDED BANKS NEW 7 AND 14 DAY SWAPS TO MEET END-  
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JUNE REQUIREMENTS. SNB JUN 23 STATEMENT SHOWED FOREIGN  
 EXCHANGE HOLDINGS ROSE SF 2.2 BILLION WHILE GIRO CLEARING  
 ACCOUNTS ROSE SF 1.6 BILLION. DAY-TO-DAY MONEY WAS ONE  
 PERCENT WEDNESDAY WITH SLIGHT INCREASE FRIDAY. STOCK PRICES  
 DECLINED SLIGHTLY IN LIGHT TURNOVER. SKA INDEX (1959 EQUALS  
 100) SLIPPED TO 219.3. AVERAGE YIELD CONFEDERATION BONDS  
 ROSE TO 4.53 WEDNESDAY, THEN SLIPPED TO 4.49. BANKS SAID  
 CAPITAL MARKET IS SOMEWHAT IMPROVED BUT NO CLEAR TREND.  
 RECENT LOAN ISSUES HAVE HAD GOOD RESULTS WITH HIGHER  
 INTEREST RATES. DOMESTIC BORROWERS ARE OFFERING 4.5 TO 5.75  
 PERCENT INTEREST WHILE FOREIGN LOAN ISSUES ARE EXPECTED  
 TO OFFER 5.5 TO 6 PERCENT.

4. FLOATING INTERST RATES: INTERNATIONAL CONSORTIUM UNDER  
 DIRECTION OF SODITIC SA, GENEVA, AND INCLUDING BANCA DELLA  
 SWIZZERA ITALIANA PLACED SF 50 MILLION IN SHORT TERM NOTES  
 ON SWISS MARKET WITH FLOATING INTEREST RATES. OBSERVERS  
 BELIEVE FLOATING RATES (FIRST TIME OFFERED ON SWISS MARKET)  
 WILL BE MORE ATTRACTIVE TO INVESTORS WHO HAVE HELD BACK  
 IN EXPECTATION OF HIGHER RATES. THREE-YEAR NOTES OF SF 50,000  
 ARE OFFERED AT PAR BY TRADE AND INVESTMENT BANK AND TRUST CO.,  
 NASSAU, LTD., MEMBER OF ITALIAN ENI GROUP, AND GUARANTEED

BY AGIP SA ROME. NOTES CARRY MINIMUM 5.75 PERCENT INTEREST  
AND PAY 0.875 PERCENT ABOVE ONE-YEAR EURO-FRANC RATE (LONDON  
INTER-BANK OFFERED RATE) WITH ANNUAL ADJUSTMENTS.

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USEEC, USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY,

VIENNA FOR ELLIS, PASS TREASURY AND FRB

5. GOVT FINANCES: FEDERAL COUNCILOR CHAVALLAZ SAID NEW VALUE  
ADDED TAX PROJECT, SIMILAR TO PROPOSAL DEFEATED IN JUNE 12  
REFERENDUM, WILL BE SENT TO VOTORS IN 1980 OR 1981. HE SAID  
1978 DEFICIT WILL BE SF 2.2 BILLION INSTEAD OF SF 637 MILLION  
IF VAT HAD PASSED. HOWEVER, DEFICIT IS ONLY 0.1 PERCENT OF  
TOTAL DEBT SERVICE. CONFEDERATION WILL NOT BORROW IN 1977  
BUT WILL PROBABLY BORROW SF 1 BILLION IN 1978. CHAVALLAZ WANTS  
TO INCREASE TURNOVER TAX (POSSIBLY FROM 5.6 TO 7.5 PERCENT  
ON RETAIL SALES AND 8.4 TO 11.5 PERCENT ON WHOLESALE  
TRANSACTIONS) BY JULY 1978. THIS WOULD BEING IN SF 300 MILLION  
ADDITIONAL RECEIPTS BY END 1978 AND SF 1.3 BILLION IN 1979.  
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ADDITIONAL MEANS WOULD BE NECESSARY TO BALANCE BUDGET, SUCH AS REDUCED FEDERAL PAYMENTS TO CANTONS AND NATIONAL SOCIAL SECURITY PLAN. HOWEVER, SOCIAL DEMOCRAT PARTY REPORTEDLY WILL NOT SUPPORT INCREASE IN TURNOVER TAX OR REDUCTION IN FEDERAL TRANSFER PAYMENTS.

6. BANK CONTROL: FEDERAL COUNCILOR CHAVALLAZ TOLD PARLIAMENT THAT FEDERAL BANKING COMMISSION STAFF WILL BE DOUBLED TO MORE EFFECTIVELY OVERSEE BANKS. PARLIAMENT RECOMMENDED THAT FEDERAL COUNCIL CONSIDER AMENDING BANK SECRECY LAW SO THAT ONLY VIOLATIONS ALLEGING INTENT WOULD BE PUNISHABLE, AS WELL AS ADOPTING WAYS TO PROTECT SMALL DEPOSITORS AND CREDITORS, STRENGTHEN AND IMPROVE BANK CONTROL, AND PREVENT ILLICIT PRACTICES. CHAVALLAZ STRESSED THAT BANKS HAVE BEEN MAIN PILLAR OF SWISS ECONOMY DURING RECESSION. HE WARNED THAT GOVT ASSUMPTION OF INTERNAL BANK CONTROL WOULD TRANSFER RISKS PRESENTLY BORNE BY BANKS TO PUBLIC AUTHORITIES. CHAVALLAZ SAID GOVT CLAIMS SF 200 MILLION FROM CREDIT SUISSE FOR UNPAID WITHHOLDING TAXES AND INTEREST IN CHIASSO AFFAIR; OTHER PENALTIES FOR CREDIT SUISSE WILL TAKE LONGER TO CALCULATE. SOCIALIST PARTY PRESIDENT HUBACHER TOLD PRESS HE DOUBTED WISDOM OF REQUIRING GOVT MEMBER ON BANKS' BOARD OF DIRS TO EXERCISE GREATER CONTROL OF BANKS.

7. CHIASSO AFFAIR: CREDIT SUISSE HELD SPECIAL SHAREHOLDERS MEETING JUNE 24 TO EXPLAIN CHIASSO AFFAIR. CHAIRMAN AEPPLI SAID IT WAS STILL IMPOSSIBLE TO DETERMINE TOTAL LOSSES. BANK NOW HAS SF 1.7 BILLION IN NON-INTEREST BEARING CLAIMS AGAINST TEXON, WHICH PLEDGED ASSETS OF SF 1.75 BILLION. ASSETS ARE OVER-VALUED, THOUGH SOME APPEAR TO BE IMPORTANT. AEPPLI SAID PUBLICISED SHARE CAPITAL AND RESERVES WOULD NOT BE AFFECTED. HE EXPECTED 1977 PROFIT TO BE ABOVE SF 829 MILLION DESPITE LOWER EARNINGS FROM SECURITIES AND FOREIGN

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EXCHANGE TRANSACTIONS. REPORT OF INTERNAL INQUIRY CRITICIZED NEGLIGENCE OF FORMER DIRS SCHULTHESS AND WUFFLI, WHO DID NOT HEED WARNINGS ABOUT CHIASSO BRANCH ACTIVITIES, BUT CLEARNED OTHER SENIOR BANK OFFICERS IN ZURICH. NEUE ZUERCHER ZEITUNG COMMENTED THAT LITTLE NEW INFORMATION WAS DISCLOSED ABOUT LOSSES, MANAGEMENT'S INVOLVEMENT OF CREDIT SUISSE RELATIONSHIP WITH TEXON, AND HOPED THAT MORE WOULD BE DISCLOSED. EXPECTED MOVE BY GROUP OF SHAREHOLDERS TO FORCE ANOTHER SPECIAL MEETING THIS FALL DID NOT MATERIALIZE.

8. THE THREE BANKS DOMICILED IN LIECHTENSTEIN HAVE AGREED WITH

AUTHORITIES THERE TO APPLY STRICTER RULES ON ACCEPTANCE OF  
DEPOSITS AFTER JULY 1 BY ADOPTING SAME AGREEMENT REACHED  
JUNE 3 BETWEEN SNB AND SWISS BANKERS ASSN (BERN 2520 AND A-81.).  
DAVIS

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## Message Attributes

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Declassified/Released  
US Department of State  
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